MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2021/2022

DAU5014 – AUDITING 1

(All sections/Groups)

22 NOVEMBER 2021
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages excluding cover page with 4 questions only.
2. Answer **ALL** questions.
3. Please write your answers in the Answer Booklet provided.

QUESTION 1

PART A

Arieya is a first-year student from Diploma in Accounting at Multimedia University Melaka. Last week, her Auditing subject lecturer assigned her to conduct an online interview with an auditor from Alan Tan & Co, a member firm of the Malaysian Institute of Accountants (MIA). Mr Alan Tan has been a Chartered Accountant for the past 15 years. The objective of the interview is to understand the nature of a financial statement audit from the perspective of a practising auditor. The following shows some parts of the conversation that were recorded between Arieya and Mr Alan Tan.

Arieya	Thank you for your willingness to participate in this interview. Mr Alan, could you explain the objective of the financial statement audit?
Mr Alan Tan	My pleasure Arieya. The financial statement audit is useful in providing information about a company's financial position and financial performance that will benefit a wide range of users in making economic decisions. The users of financial statements vary from the internal user and external user of financial statements. As an auditor of financial statements, our responsibility is to express an opinion as to whether the financial statements give a true and fair view of the company operation.
Arieya	Why does the company need the auditor to examine the financial statement?
Mr Alan Tan	The demand for financial statement audit happens because of the principal and agent relationship. The separation of function between principal and agent raises the need for monitoring function in the company. Factors such as information asymmetry and conflict of interest in these relationships cause the principal to doubt the company's financial statement. As a result, the agent may not act in the best interest of the principal. I believe you will learn more about the principal and agent relationship in your Auditing class.
Arieya	Can the company choose any auditor to conduct a financial statement audit?
Mr Alan Tan	Oh! A company must choose an auditor registered and licensed by Malaysian Institute of Accountants (MIA) to examine the financial statement. The auditor must be independent as well.

Continued…

Arieya	What other services are offered by your audit firm other than financial statement audit?
Mr Alan Tan	Other than financial statement audit, we also offer non-assurance services to our clients.

Required

(a) Identify **ONE (1)** example of internal user and **THREE (3)** examples of external users of financial statements. Explain the purpose of financial statements to each user of the financial statements.

(Note: Use the table format below to write your answers)

No	Internal/ External	Example	Purpose
1.	Internal		
2.	External		
3.	External		
4.	External		

(6 marks)

(b) Elaborate the **TWO (2)** factors that exist in the principal and agent relationship which cause the demand of audit as mentioned by Mr Alan Tan.

(4 marks)

(c) State **FOUR (4)** responsibilities of Malaysian Institute of Accountants (MIA) in developing accounting and auditing profession in Malaysia.

(4 marks)

(d) Provide **TWO (2)** examples of non-assurance services that are available in an accounting firm. (2 marks)

Continued…

PART B

A public listed company must appoint an auditor in accordance with the procedures outlined in the Companies Act 2016. If a person meets certain disqualification criteria outlined in the Companies Act 2016, he may be barred from becoming a company auditor.

Required

(a) According to the Companies Act 2016, what are the procedures for appointing an auditor for a public listed company? (3 marks)

(b)

No	Situation
1.	Pei Yee is a final-year undergraduate student at MFE University pursuing a degree in accounting. She was offered the auditor position at her father's company, a small retail business, because of her outstanding result in her studies.
2.	Lao Ping is a chartered accountant who has spent the last 10 years with Haris & Co. Her superior has assigned her to be the auditor for BIDB Berhad, a bank based in Petaling Jaya. Lao Ping has taken a RM 30,000 loan from BIDB Berhad to finance her car purchases over the last two years. Her current loan balance is RM 11,000 plus interest.

Required

Identify whether Pei Yee and Lao Ping are disqualified from acting as the company auditor in each situation above. Explain the reason for your answer.

(Note: Use the table format below to write your answers)

No	Disqualified (Yes/ No)	Explanation
1.		
2.		

(6 marks)

(Total: 25 marks)

Continued…

QUESTION 2

PART A

Danny & Co has recently been appointed as auditor of Elixir Manufacturing Berhad (EMB), a company specialises in ready-to-assemble furniture. There are four audit team members involved in the audit assignment: Joe, Danny, Ben and Lisa. Danny, the audit partner, assigned Joe to arrange a meeting with the company's finance director to discuss the audit engagement that will take place in March 2021. Then, Joe and Lisa will work together to prepare the audit plan for the financial statement audit for the year ended 31 December 2020. Lisa also will be in charge of monitoring the audit work performed by Ben during the field audit at EMB.

Required

(a) Identify the position hold by Joe, Lisa and Ben in Danny & Co. (3 marks)

(b) Explain **TWO (2)** responsibilities of Danny and Ben during the financial statement audit at EMB. (4 marks)

(c) What is the objective of an audit plan? (2 marks)

(d) Assume that you are Lisa, state **FIVE (5)** details that you will include in the audit plan for EMB. (5 marks)

PART B

Company	Amounts of misstatements
Company 1	The amount of misstatements in the financial statements are highly material that the overall truth and fairness of the financial statements is in question.
Company 2	The amounts of misstatements in the financial statements are immaterial, and no further explanations are needed.
Company 3	The amounts of misstatements in the financial statements are material but do not overshadow the financial statements as a whole.

Figure 1

You are one of the auditors working in Freddy & Co and currently auditing financial statements for various manufacturing companies in Melaka. Your audit team have collected all audit evidence needed and will prepare the audit report soon. **Figure 1** shows three different materiality levels of misstatements that you have found in the financial statements for three companies.

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Required

(a) Describe the **TWO (2)** types of misstatement that you may found in the financial statements. (4 marks)

(b) Identify the type of audit report you would issue for the three companies in **Figure 1**.

(Note: Use the table format below to write your answers)

No	Type of Audit Report
1.	
2.	
3.	

(4 marks)

(c) Based on your answer in (b), state **THREE (3)** conditions that determine your audit report issuance for Company 2 in **Figure 1**.

(3 marks)

(Total: 25 marks)

QUESTION 3

PART A

You are the auditor in charge of the audit of NextGrip Berhad, a manufacturing company. Based on the previous audit, you discovered that the company has weak internal control. The finance director informs you that management has taken many initiatives to improve the company's internal control components since last year. **Figure 2** below displays the three components of internal control that the company has improved. You have assigned two members of your audit team to test the company's internal control.

- The control environment
- Control procedures
- Monitoring of internal control

Figure 2

Required

(a) Identify and explain any **THREE (3)** ways the company can strengthen their control environment. (9 marks)

(b) Describe any **TWO (2)** control procedures that can be applied in the company. (4 marks)

(c) Suggest **ONE (1)** initiative that the company may take to improve the monitoring of internal control. (2 marks)

Continued…

(d) What are the **TWO (2)** audit procedures that your audit team member may apply to test the company's internal controls? (4 marks)

PART B

Vanish Service Berhad is a new client for your audit firm for the year ended 31 December 2020. In 2019, the previous auditor qualified the company audit report due to the inability to obtain sufficient and appropriate audit evidence over the company manufacturing cost. Due to this issue, your audit partner has reminded your team to apply professional skepticism throughout the audit process.

Required

(a) Explain how you will exercise professional skepticism during the audit process. (4 marks)

(b) What are the factors in determining the appropriateness of audit evidence? (2 marks)

(Total: 25 marks)

QUESTION 4

PART A

Audit Risk = _____ x Detection Risk x Control Risk

Figure 3

Dev is currently working on the audit for TD Food Berhad. Before Dev can start with the substantive test audit procedure, he must first establish the appropriate audit risk for the engagement. Dev will determine the audit risk based on the formula stated in **Figure 3**. However, there is a missing risk in the formula.

Required

(a) What is audit risk? (2 marks)

(b) Identify and explain the missing risk in **Figure 3**. (3 marks)

(c) State any **SIX (6)** factors that will guide Dev to determine the missing risk in (b). (6 marks)

(d) Which of the risk in **Figure 3** is controllable by the auditor? (1 mark)

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PART B

Your audit team have been assigned to plan the financial statement audit of Dash Berhad for the year ended 31 December 2020. In addition, you were informed by the management that the company had set up an internal audit department in February 2020. Based on your discussion with Mr Frank, the head of the company's internal audit department, you were informed that the internal audit department had performed various audit assignments in the company. All findings were reported back to the Board of Directors.

Required

(a) Identify and explain **THREE (3)** factors that your team should consider before relying on the audit work performed by Mr Frank and his audit team members. (9 marks)

(b) How will the financial statement audit process be aided by internal audit functions in the company? (4 marks)

(Total: 25 marks)

End of Paper